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International Securities Markets  
Benefits and Challenges

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Monsieur Le Portz, honored guests, ladies and gentlemen:

This morning I would like to discuss some of the benefits and challenges of the international securities markets.

The benefits are a result of the rapidly increasing international mobility of capital. There are many man-made barriers to the free flow of capital, but one of the millennia to which mankind can aspire is that great day when capital will be permitted to flow with the ease of water into every nook and cranny of economic opportunity - first within our own countries, next throughout the free world, and ultimately throughout the earth.

As our worldwide economic interests and dependencies are more closely bound together, all mankind will enjoy greater peace, prosperity and opportunity.

Today, investors and corporations are increasingly able to shop worldwide for the most attractive investment opportunities, sources of capital and currency exchange rates at any moment in time.

The increasing competition between marketplaces and the greater breadth, depth and liquidity of the markets are reducing execution and financing costs for the benefit of investors, government and corporate issuers. All of which are encouraging broader public ownership of securities.

It is notable in this regard that those free world countries which enjoy the broadest public ownership of securities, also generally enjoy the greatest political and economic stability - which in turn attracts additional capital, both from within and from abroad.

#### International Markets

The strong growth of the international securities markets has been both a product and a stimulator of the worldwide recovery from the 1982 recession. Many other factors have contributed to the recovery, including the significant declines in the price of oil, interest rates and inflation, the reduction of regulatory impediments and the increasing privatization of industry.

While future recessions, political and economic disruptions and market reactions should be anticipated, the international securities markets are becoming ever more important sources of capital for governments and private corporations, and of investment opportunities for individuals and institutions of all nations.

### International Bond Markets

There are presently over \$500 billion of government and corporate bonds outstanding in the Eurobond and other international markets. The record \$166 billion of such offerings last year was a 50% increase over 1984 and double the 1983 volume. The \$51 billion offered in the first quarter of this year exceeded any full year prior to 1982. It is also noteworthy that developing countries raised a record \$8 billion in the international bond markets last year.

### New Instruments

The strong growth of the international bond markets has been stimulated by innovative new instruments that have reduced the cost and increased the liquidity of such offerings. They include interest rate and currency swaps, floating rate issues and the securitization of debt.

Bank guaranteed interest rate and currency swaps are low cost means of shifting exchange risks. They permit issuers to borrow in one currency and make interest and principal payments in another. Swaps have grown from a billion dollars in 1981 to over \$170 billion in 1985. About half of last year's Eurobond offerings included swap arrangements. Half also consisted of floating rate issues. Securitized debt offerings are a lower cost means of financing than some conventional term loans.

### International Equity Markets

The Eurobond market has spawned the Euroequity market. In 1980, only four companies did Euroequity offerings. They totalled \$117 million. In 1985, 26 companies sold over \$3 billion of Euroequities, and through the first five months of this year, 23 companies have already sold over \$1.7 billion of Euroequities.

The United Kingdom's privatization program has received worldwide recognition. It has included the monumental and highly successful L3.9 billion multi-national offering of British Telecom in 1984 - by far the largest equity offering in history.

British and other European and Canadian corporations have pioneered the Euroequity market. U.S. companies are becoming more active in this market. Last year they raised \$122 million in the Euroequity market, and this year they have already raised over \$600 million.

Also, foreign corporations have increased their equity financings in the U.S. They sold \$900 million of stock in the U.S. last year, and have already raised a similar amount during the first quarter of this year. About 10% of the transactions on the New York Stock Exchange now originate abroad.

There are presently 473 companies that have shares trading actively in more than one country, which is a 100% increase since 1983. These companies are domiciled in 22 countries. They include 85 U.S., 79 Japanese and 42 U.K. companies.

By 1990 we may well witness over a fivefold increase in the number of companies that have shares actively trading around the clock and the world, through a grid of international networks that interconnect the major securities markets.

Measured in U.S. dollars, last year the world's stock markets rose 37% to a new high and international trading also reached record levels. Since 1982, foreign purchases and sales of U.S. stocks have doubled (to \$159 billion) and U.S. transactions in foreign stocks have tripled (to \$46 billion). In addition, since 1980 the non-domestic portion of United Kingdom pension funds has nearly tripled to \$33 billion, and the Japanese from a standing start has reached \$8 billion. The 80 mutual funds that now afford U.S. investors the opportunity to invest in foreign stocks, represent nearly a fourfold increase since 1983. U.S. institutions now hold about \$16 billion in foreign stocks, as compared with less than \$2 billion in the late 1970's, and U.S. pension funds now have 5% to 10% of their assets invested abroad.

#### International Linkages

This year the Interbourse Data Interchange System, will provide the Paris, London, Brussels, Amsterdam and other European exchanges with current stock prices. The U.S., Canadian and Japanese exchanges and the Paris Bourse have automated execution systems. The Zurich Bourse is considering installing such a system.

All of the U.S. stock exchanges are electronically linked through the Intermarket Trading System, and some of the Canadian and U.S. stock exchanges are now linked. The London Stock Exchange and the U.S. National Association of Securities Dealers have begun the first transatlantic exchange of stock quotations. Reuters is in the process of making Instinet's U.S. stock execution facilities available in Europe. Other major exchanges and market systems are considering linkages.

The deregulation and restructuring of the British securities industry in October - the "Big Bang" - is expected to have major competitive ramifications in Britain and abroad. The recent admission of ten foreign firms to the Tokyo exchange will improve foreign access to the Japanese markets.

#### There Are Also Challenges

Yes, internationalization of the securities markets offers enormous present and future benefits. The challenges are also immediate and great. The most important include the international balance of payments, government debt restructurings and the hundreds of billions of dollars of off-balance sheet bank guarantees and credits. Recent initiatives by the U.S. Secretary of the Treasury, James Baker, address some of these and other major challenges.

Those challenges that we gathered here today are in unique positions to address include international securities clearance, settlement, disclosure, surveillance and enforcement practices.

The present clearance and settlement of international securities transactions are generally very inefficient. Much remains to be done in the development of linked and central book-entry clearance and settlement systems. Some countries' systems are still manual.

Clearance and settlement cycles range from two days in Canada and West Germany, to over a month in many countries. Many are unable to reconcile initially as much as 40% of their daily transactions and take months to deliver securities. The extremely high costs and very serious capital and exchange risks for all participants in such markets are major obstacles to the growth and development of these countries' capital markets.

Linkages are now operating between U.S. and Canadian clearing systems and are being actively pursued on both sides of the Atlantic, but much remains to be done.

#### Surveillance and Enforcement

Another important area is effective market surveillance and enforcement practices. The potential for fraud and market manipulation has increased through the use of multiple nominee bank and brokerage accounts in different countries and the leverage provided by stock options and futures.

It is in the interest of all nations to expose and prosecute that fringe element, who would lie, cheat and steal from legitimate investors. All of us bear the cost of such abuse. In addition to multi-million dollar frauds, it results in less efficient markets, higher insurance and other costs, and most important, the inhibition of individual and institutional investors.

It takes years to build investors' confidence in the fairness and integrity of securities markets. Confidence that can be shaken or destroyed overnight by scandals and abuses - market manipulations, insider trading, false and misleading financial disclosures, Ponzi schemes and other scams. Such abuses are exacerbated if they can be conducted with impunity from behind the secrecy and blocking laws of other nations. Such laws are not intended to protect criminals, but they can have that effect.

Four recent, bilateral agreements illustrate approaches to more effective international law enforcement.

In connection with the recent linkage of the American and Toronto stock exchanges, and the Boston and Montreal stock exchanges, the exchanges, the Ontario and Quebec securities commissions and the SEC have agreed to cooperate and share information in enforcement investigations. The Ontario Commission has also provided assurances that it is highly unlikely that the Canadian federal blocking statute will be invoked to prevent the exchange of such information. The U.S. does not have a blocking statute.

The historic 1982 Memorandum of Understanding between Switzerland and the SEC removed the haven of the Swiss secrecy laws from inside traders in corporate mergers and acquisitions.

Last May, the Securities Bureau of Japan and the SEC agreed to cooperate and exchange securities information on a case-by-case basis, and earlier this month, the Cayman Islands and the U.S. executed a treaty that will facilitate the prosecution of securities and other crimes.

Those countries that harbor criminals drive away legitimate investors. Criminals rarely invest in secrecy havens. They merely use them to conceal their illicit transactions in other countries.

Bilateral and multilateral cooperation agreements are needed so that we can help each other expose and prosecute securities frauds. These agreements must recognize the unique needs and interests of each country.

Within the past two years, the ability of the U.S. securities markets to expose, and of the SEC and the U.S. Justice Department to prosecute, inside traders and market manipulators has been greatly enhanced by electronic market surveillance systems, heavy fines, increased cooperation from abroad and the support of the financial community and the investing public.

As the recent Levine, Santa Fe and other major international cases demonstrate, it has become increasingly difficult for inside traders to hide at home or abroad, and those who engage in such activities are assuming enormous risks of heavy fines, imprisonment and disgrace.

In addition to the U.S., insider trading is illegal in Canada, France, Hong Kong, Japan, the U.K. and other countries, and the federal government of Switzerland has introduced legislation which would make it a criminal offense.

Commissioner Cox, Gary Lynch and Richard Ketchum, the Directors of the SEC Enforcement and Market Regulation Divisions, and I will be pleased to discuss enforcement and market surveillance programs with you, and following this conference, to receive your representatives in Washington.

The securities markets in developing nations enjoy exceptional growth potential. Varying progress is being made in the reduction of inflation, the development of tax systems which encourage investment, and regulations that discourage fraud and increase investor confidence. The SEC, and I am sure other IASCO members, will continue to be available for consultations with developing nations.

#### Market Accessibility

Another challenge is to increase the accessibility of securities markets to all foreign and domestic issuers, securities firms and investors, without compromising investor protections. The SEC is considering a reciprocal approach under which so-called "world class" corporations would be permitted to do public offerings of investment grade debt issues in the U.S. and participating countries, under prospectuses which comply with such companies' domestic requirements, subject to certain minimum provisions. A similar approach is also being considered for certain rights and exchange offerings. Linda Quinn, the Director of the SEC Corporation Finance Division, will be pleased to discuss these and other initiatives with interested IASCO members.

Suggested Action

To address these major challenges, it is suggested that the IASCO Presidents Committee consider the formation of four committees at this conference to develop proposals - for presentation and action at the next IASCO conference - to accelerate:

- o The automation of securities clearance and settlement systems between IASCO members;
- o The sharing of enforcement information between IASCO members;
- o The access of foreign issuers, broker-dealers and investors to each others' markets.
- o And the growth of developing nations' securities markets.

In conclusion, timely responses to these challenges are within reach.

In promoting the improvement of international securities markets, we are promoting the prospect for greater peace, prosperity and opportunity for each other and all nations.

Thank you.